MORTGAGE BANKERS ASSOCIATION
Investing in communities

STATEMENT

of

Jonathan Kempner

on

H.R. 4110

"FHA Single Family Loan Limit Adjustment Act of 2004"

before the

Subcommittee on Housing and Community Opportunity

Committee on Financial Services

United States House of Representatives

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Good morning, and thank you Mr. Chairman, for holding this hearing and inviting the Mortgage Bankers Association (MBA)[1] to share its views on H.R. 4110, the "FHA Single Family Loan Limit Adjustment Act of 2004," introduced on April 1, 2004, by Representative Miller (R-CA) and Representative Frank (D-MA). My name is Jonathan Kempner and I am President and CEO of the Mortgage Bankers Association.

MBA is pleased to have an opportunity to share its views on H.R. 4110 because we believe the legislation points to the important role the Federal Housing Administration (FHA) plays in providing families the affordable financing necessary to own their own home. We support raising FHA's mortgage limits to 100% of an area's median home price, but believe that FHA's mortgage limit in any area should not exceed the Freddie Mac conforming loan limit.

FHA is 70 years old this year. Created in 1934 to stabilize the residential mortgage finance industry, FHA played the pivotal role in creating the modern real estate finance system that the U.S. enjoys today. FHA was the first to promote long-term mortgage financing, the amortization of mortgage debt, and the provision for lower downpayment requirements. These initiatives made homeownership accessible to the common American family.

Over the past 70 years, MBA and our members have worked in partnership with FHA to help it meet its goals and deliver affordable, long-term financing. Today, MBA members originate and service the vast majority of FHA loans each year. We comment on FHA regulations and proposals, monitor its presence in the marketplace and meet regularly with FHA staff to discuss improvements to its programs and the health of FHA's insurance funds.

Mr. Chairman, nowhere, inside or outside the beltway, will you find a stronger advocate for FHA than the Mortgage Bankers Association.

Throughout its history, FHA has played that ever so important role that government must sometimes play in market economies: the role of innovator. Much of what is common in today's mortgage industry is a result of the "research and development" that FHA has pioneered over the years.

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[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 400,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,700 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.
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Today's real estate finance system is stable and sophisticated, with mortgage bankers sitting squarely in the middle, efficiently linking capital from various sources around the world to the American homebuyer. The evidence that this system is working well is the fact that the U.S. currently enjoys the highest rate of homeownership in its history. Nationwide, mortgage bankers provide the funds that help families purchase homes. The low interest rates over the past several years were not just enjoyed in a certain part of the country or by a certain type of borrower-- they were accessible in all parts of the country through a wide variety of mortgage products.

The Role of FHA in Today's Marketplace

Just as the U.S. real estate finance system has changed since 1934, so too has FHA's role. Today, FHA is no longer focused on stabilizing mortgage markets, but rather on expanding homeownership opportunities for those families who are unserved or underserved by the private market.

This shift in mission is exemplified by changes in the profile of who FHA served over the 1990s. In the early 1990s, about two-thirds of FHA loans were made to first-time homebuyers. By the end of the 1990s, and still today, 4 out of 5 FHA borrowers are first-time homebuyers. During the early 1990s, about 25% of FHA loans were made to minorities, but that percentage grew to more than 37% by the end of the 1990s. In 1999, half of all FHA loans went to low-income borrowers-- those making less than 80% of an area's median income-- and over 40% were made in underserved areas.

FHA has become an instrument for the creation of new homeowners, for reaching underserved areas, and for bridging the minority homeownership gap. Several policies adopted during the 1990s have furthered this focus.

FHA Mortgage Limits

One important policy change came in 1998 when the "floor" and "ceiling" of FHA's maximum mortgage limits were raised. The minimum mortgage limit for an area (the "floor") was increased from 38% to 48% of the Freddie Mac conforming loan limit. The maximum mortgage limit for an area (the "ceiling") was raised from 75% to 87% of the Freddie Mac conforming loan limit. Raising these limits broadened the housing stock that was available to FHA's borrowers and allowed FHA to provide affordable financing in a greater number of high-cost areas.

In one sense, H.R. 4110 is an update to this 1998 policy change.

H.R. 4110 proposes to adjust the FHA mortgage limit from 95% of an area's median home price to 100% of an area's median home price. Additionally, H.R. 4110 would remove the ceiling on FHA mortgage limits (87% of the conforming loan limit). This latter provision would result in FHA mortgage limits in certain areas of the country exceeding, and in some cases far exceeding, the Freddie Mac conforming loan limits.

MBA spearheaded the initiative in 1998 to increase FHA's mortgage limits and believes that now is an appropriate time to increase FHA's mortgage limit ceiling further to equal the Freddie Mac conforming loan limit. However, at this time, we do not support FHA loan limits exceeding the Freddie Mac conforming loan limit.

Principles for Reform of FHA's Mortgage Limits

MBA believes that raising FHA's loan limits to 100% of an area's median home price and aligning the FHA mortgage limit ceiling with the Freddie Mac conforming loan limit will broaden the housing stock available to FHA borrowers in many high-cost areas without shifting FHA from its focus on first-time homebuyers and the underserved.

We have developed this position based on the following principles:

FHA's core mission should stay squarely focused on the moderate end of the mortgage market as defined by the Freddie Mac conforming loan limit.

Over the last 15 years, FHA has fine-tuned its focus to helping those families who otherwise may not have an opportunity to become homeowners. Once in the ranks of homeowners, families often purchase their next home without the assistance of FHA. Fannie Mae and Freddie Mac, as federally chartered enterprises, define the conforming market. The conforming mortgage market though, is only one part of the entire mortgage market. Mortgage bankers provide financing options that go beyond Fannie Mae and Freddie Mac. MBA believes that FHA's primary mission should be to operate within the conforming market, not exceed it.

The factors driving the extremely high median home prices in certain areas of the country are varied and financing innovations alone will not change them. MBA believes that FHA's role should not lead it to financing homes at the threshold of these quickly appreciating markets, but rather should stay focused on those homes and those areas that represent affordable housing.

The benefits of FHA mortgage limits in excess of conforming loan limits are unclear.

Currently, mortgage amounts in excess of Freddie Mac's conforming loan limit are called "jumbo" mortgages. These mortgages are originated, serviced and securitized by private lenders, typically in conjunction with private mortgage insurance. The jumbo mortgage market is robust and a wide range of products is available throughout the country.

FHA credit policies that work at lower mortgage amounts may not appropriately manage the risks that are associated with higher mortgage amounts in quickly appreciating markets. Prior to determining whether or not FHA products would add value to the jumbo mortgage market, MBA would suggest analysis be undertaken studying the implications for the mortgage market and for FHA using various credit policies.

FHA may not be well positioned to step outside its core mission and manage a jumbo loan program.

As has been mentioned, FHA is focused on providing homeownership opportunities for those with less income, poorer credit, or no credit. While FHA has had success with these borrowers, the success has not been without challenges, especially in the area of technology and program management. It is unclear that FHA, given its current structure and technology, has the capacity to appropriately identify and manage the risks that accompany jumbo mortgage origination.

MBA has suggested improvements to FHA that we believe will position it to better manage its portfolio and respond to market needs. These improvements include changes to how FHA funds and manages its technology, personnel, and product development. MBA believes that if these changes were implemented, FHA would be in a better position to evaluate new initiatives.

In summary, MBA supports H.R. 4110 in raising FHA mortgage limits to 100% of an area's median income, but, for the reasons cited above, would suggest limiting the ceiling on FHA mortgage limits to 100% of the Freddie Mac conforming loan limit.

Thank you for the opportunity to testify on H.R. 4110. MBA looks forward to working with Representative Miller, Representative Frank, and the subcommittee on this legislation. We would be happy to provide any additional information you may require.